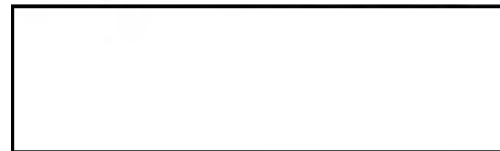


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12 January 1967



25X1

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Approved For Release 2003/04/18 : CIA-RDP79T00975A009500250001-9

12 January 1967

25X1

# *Central Intelligence Bulletin*

## *CONTENTS*

Vietnam: Current situation report. (Page 1)

25X1

Indonesia: Sukarno's statement on 1965 uprising will intensify demands for his ouster. (Page 5)

India: Position of Congress Party deteriorating as election approaches. (Page 6)

25X1

Yugoslavia-USSR: New frictions arise as Soviets criticize Tito's reforms. (Page 8)

Belgium - Congo (Kinshasa): Union Miniere continues to resist compromise. (Page 9)

25X1

Bahamas: Election deadlock hampers creation of new government. (Page 11)

25X1



\*Vietnam: (Information as of 4:30 AM EST)

The Military Situation in South Vietnam: Twenty-three allied battalions are continuing to press their major offensive--Operation CEDAR FALLS--against the Communist-infested Iron Triangle base area north of Saigon in Binh Duong Province.

Viet Cong storage areas containing more than 600 tons of rice were uncovered on 10-11 January by allied sweep forces bringing the total amount of rice captured since this operation began on 7 January to more than 1,200 tons. In addition, large amounts of other food-stuffs and arms and munitions have been seized.

No large-scale engagements between enemy forces and allied troops participating in this operation have been reported. However, many small-unit actions have occurred in the six-day-old operation. Cumulative Communist casualties now total 189 killed, 40 captured, and 256 suspects detained. American losses are 20 killed and 102 wounded. (Map)

Political Developments in South Vietnam: Plans are moving forward for the visit of Premier Ky to Australia and New Zealand next week.

Premier Ky is expected to arrive in Canberra on 18 January for a five-day visit. He will tour New Zealand from 23-26 January. South Vietnamese officials had earlier offered the two governments an opportunity to postpone Ky's trip in view of the violent objections which are being raised by opposition parties in both countries.

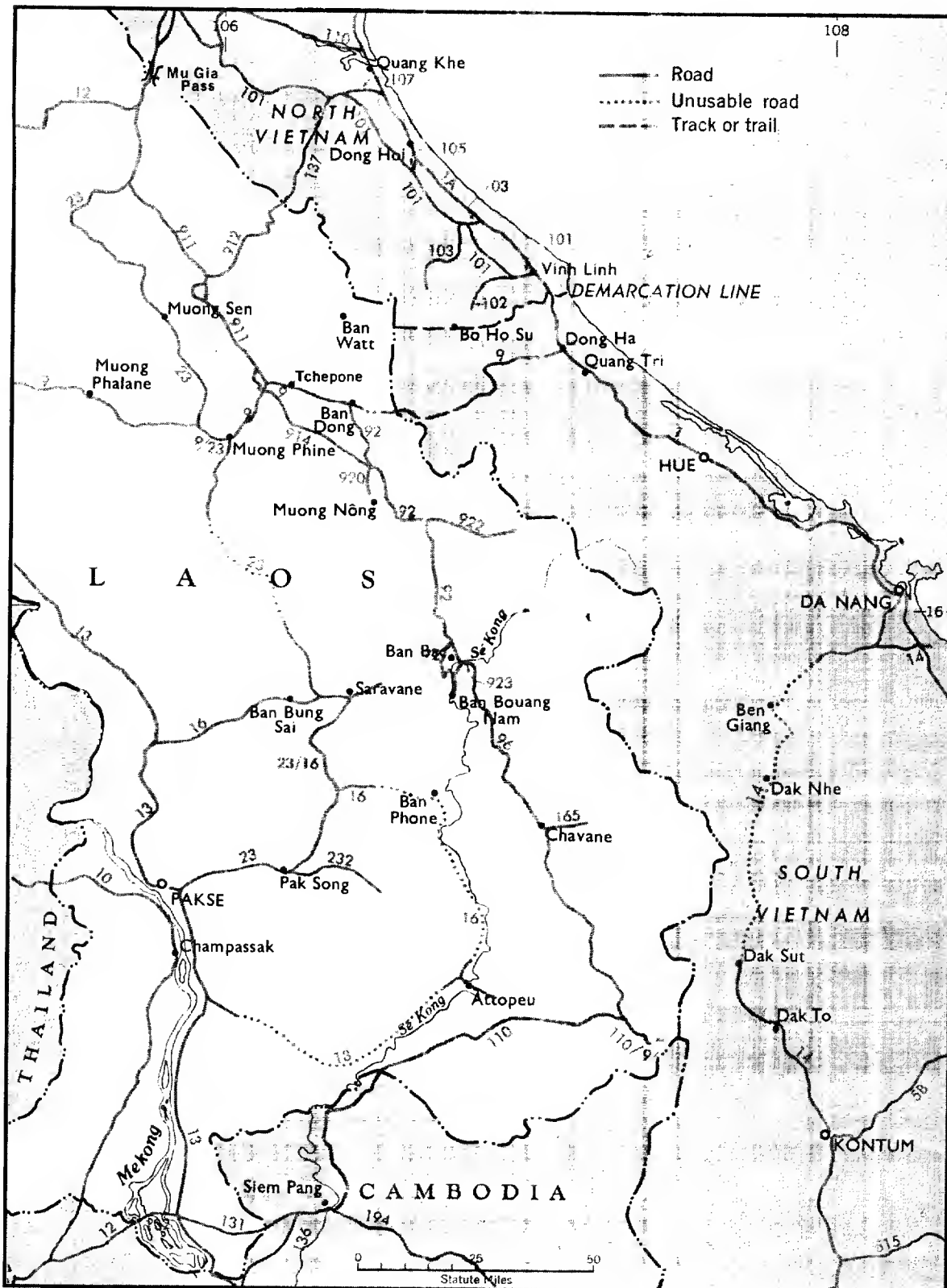
Officials of the two countries have assured Ky that despite initial adverse publicity, both governments welcome his visit. Although anti-Ky demonstrations can be expected in both countries, no serious disturbances are expected.

(continued)

12 Jan 67

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## LAOS PANHANDLE



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North Vietnamese Military Developments: Trained observers located near the Mu Gia Pass area report that about 190 trucks moved into Laos between 3 and 9 January on one of the two roads connecting the Laos panhandle with North Vietnam. This is the largest number of trucks reported moving into Laos in the Mu Gia Pass area since late November, but incomplete coverage by ground observers makes it difficult to draw precise comparisons with previous years. Nevertheless, the Communists thus far appear to be moving fewer trucks in the panhandle than they did during last year's dry season.

25X1

12 Jan 67

2

25X1

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Approved For Release 2003/04/18 : CIA-RDP79T00975A009500250001-9



Indonesia: President Sukarno's 10 January statement on his role in the antiarmy action of October 1965 will not satisfy the Suharto regime and will intensify demands for his early ouster.

Instead of acknowledging the pre-eminent constitutional authority of congress (MPRS) and blaming the October 1965 events on the Communist Party, as the regime had urged him to do, Sukarno denied that the MPRS had any right to demand an accounting from him. He said his own investigation of the 1 October "affair" showed that it was caused by three factors--faulty policies of the Communist leadership, neocolonialist and imperialist subversion, and the existence of "undesirable elements" in Indonesia. He reiterated that the events of 1 October were a "complete surprise" to him.

Sukarno's unsatisfactory statement will be useful to those who want to mount an accelerated campaign against him, and an intensification of anti-Sukarno publicity is likely. Even before Sukarno issued his statement, ten "action fronts" had demanded that the MPRS suspend Sukarno from office, and three popular newspapers a few days ago highlighted some of Sukarno's financial manipulations.

There are indications, however, that General Suharto, despite pressures from activists, will continue to move with deliberation and to rely on legal forms. Parliament reassembles on 23 January and may be asked to call a special session of the MPRS to convene at some later date. The MPRS could then vote on some means to remove Sukarno from office.

In the interim Suharto may proceed with plans to enlarge parliament by appointing some 110 new members from groups that he regards as dependable. Since parliament is part of the MPRS, the former's enlargement would ensure that the MPRS is also more responsive.

25X1

12 Jan 67

5

India: The Congress Party's position appears to be deteriorating as the elections beginning on 15 February draw near.

Although most observers continue to predict a sizable, although reduced, Congress Party majority in the new parliament, there is increasing doubt about the results in several state elections. The party presently holds power in all 17 state governments except Nagaland, in eastern India, and the south Indian state of Kerala. The latter is now being ruled directly from New Delhi.

The party is entering the elections suffering from a number of problems, including the lack of a national leader with the charismatic appeal of the late prime minister Nehru. The party continues to be riddled by factionalism and is experiencing severe strains in relations between party leaders at the state and national level. In several states, dissident Congress Party members are negotiating with opposition parties in an attempt to form antigovernment electoral fronts. Continuing economic difficulties, increased religious fanaticism, and isolated incidents caused by growing communal tensions currently are adding to the government's troubles.

In addition to the probable loss of Kerala, where a Communist-led coalition is expected to win, the US Embassy now lists three other states as doubtful and two more in which the Congress will face formidable opposition. Serious reverses for the Congress Party at the state or national level would intensify pressure within the party leadership to replace Mrs. Gandhi.

25X1

12 Jan 67

6

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Yugoslavia-USSR: New frictions have arisen in Soviet-Yugoslav relations as a result of Soviet criticism of internal developments in Yugoslavia.

According to a Yugoslav journalist, the Soviets, in a letter of early December, expressed concern that President Tito's reforms designed to reduce the party's role in everyday affairs would weaken the party's overall authority. The letter asserts that Belgrade has suppressed those favoring a strong party, an obvious reference to conservative Aleksander Rankovic, who was ousted as Tito's heir apparent last July for opposing the reform.

The existence of the letter has been reported in an Italian newspaper as well, which states that Tito was also requested to change his negative position regarding a conference of European Communist parties to discuss European security.

No matter how couched, a Soviet approach on such a delicate issue was bound to arouse the Yugoslavs. That the Soviets went ahead anyway is a measure of their fear that this Yugoslav infection will spread to other countries in Eastern Europe.

Brezhnev's trip to Belgrade last September revealed Tito's irritation over alleged Soviet contacts with Rankovic. There have been several official Yugoslav statements complaining of foreign interference. As recently as 10 January, an official stated at a party plenum that "criticisms of and reservations with regard to our internal development are disturbing," and he virtually accused the Soviets of reverting to Stalinist-like tactics.

Tito reportedly has scheduled a trip to the USSR in the near future. While Tito probably hopes to smooth things over, it is unlikely that he would change his domestic policies or agree to attend a European Communist meeting.

25X1

12 Jan 67

8

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Belgium-Congo (Kinshasa): The Union Miniere mining company continues to resist any compromise in its dispute with the Mobutu government.

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Mobutu in recent days has not repeated his threat to take over other Belgian assets, such as banks and transportation companies, by 15 January. He may implement his threat, however, if Union Miniere remains opposed to reopening discussions.

The Congolese also claim a sizable portion of company assets, including copper stocks, located outside the Congo. Company officials appear reluctant to exchange control of these assets for a prospect of continued operation amid the uncertainties of Congo politics.

The Belgian Government is particularly concerned because it believes Union Miniere's refusal to reopen negotiations will arouse anti-Belgian feeling and threaten the safety of the 40,000 Belgians living in the Congo.

25X1

12 Jan 67

9

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25X1

Approved For Release 2003/04/18 : CIA-RDP79T00975A009500250001-9

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Bahamas: The political deadlock resulting from the 10 January House of Assembly elections presents the British Governor-General with a difficult, if not impossible, task in forming a new government.

The Negro-led Progressive Liberal Party (PLP) dramatically increased its seats in the House of Assembly from four to 18, equaling those of the incumbent conservative United Bahamian Party (UBP). One of the two remaining seats in the 38-member assembly went to a Labor Party member expected to align himself with the PLP. The other was won by an independent whose alignment is in doubt. The more moderate opposition National Democratic Party was crushed, and its leader failed to retain his assembly seat.

Under the constitution the governor appoints as premier the man he believes best able to command the confidence of the majority of the House members. If neither party can form a working majority, or is unwilling to enter into coalition with the other, new elections would have to be held.

The PLP, formed in 1963, has for the first time effectively challenged the tight control of the Bahamas by the white-led UBP. Thousands of jubilant Negroes marched through the streets celebrating what their leaders claimed was an end of "three centuries of white rule."

A period of general economic and political confusion can be expected. The US Consul General in Nassau predicts that investors will be especially concerned.

25X1

12 Jan 67

11

25X1

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